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Today, college presidents, financial aid administrators, and campus leaders face a difficult and complex question. Should they apply to participate in the William Ford Direct Loan program or should they stick with the Federal Family Education Loan (FFEL) Program? The Direct Loan program is presented by its supporters as a more efficient system that can provide better services to students at a lower cost to institutions. However, critics of Direct Lending argue that it is still an experiment that carries high risks and has no proven track record.

To make the decision whether or not to participate in the Direct Loan program, campus leaders need comparable information about the Direct Loan and the FFEL Programs. Yet finding this data has been difficult. As a relatively new program, few studies have been conducted. Moreover, many studies that have been done were conducted, or funded, by sources that have a substantial stake in the success of one or the other competing loan program. Whether or not self-interest actually taints the findings of any of these studies is immaterial. But persistent questions about the accuracy and validity of previous research has produced an environment where campus leaders may feel as though they are being asked to make a choice based on little more than two massive public relations campaigns.

To fill that need for information, this paper examines one critical aspect of the Direct Lending program. What are the costs and/or the savings experienced by institutions during the first year of the operation of Direct Lending? This paper reports the results of a survey of the directors of the financial aid offices at those campuses that participated in Direct Lending for the first time in 1994-1995. Specifically, the data generated by the responses should help campus leaders make better informed decisions about their loan programs. How much (if anything) has it cost institutions to take over the process of originating student loans? How much (if anything) have participating institutions saved because of the shift? Have smaller institutions experienced different costs and savings patterns than larger institutions? Were these new costs and/or savings in line with pre-implementation projections or were there unanticipated costs or savings experienced along the way?

This is explicitly not a study of institutional satisfaction with the Direct Lending program or a comprehensive comparison of the program's costs and benefits. It addresses, instead, the more narrow issue of implementation costs. While no campus administrator should base his or her decision on whether to participate in the program solely on such short-term cost data, no administrator can make an informed decision without first examining such data.

The Development of Direct Lending

The Direct Loan program was created in the 1992 Amendments to the Higher Education Act of 1965. Under the program, the U.S. Department of Education sells securities to capitalize a loan fund. Participating campuses then lend those funds directly to qualified students. This new lending arrangement was de-

signed to eliminate the need for private lenders in the origination and servicing of student loans. By taking private lenders and guaranty agencies out of the process, Direct Lending offered the hope of lowering the costs of student loans through a streamlined loan process that eliminated the need for secondary loan markets. After a long and acrimonious congressional debate, Direct Lending was finally established as a "demonstration project." This experiment was intended to test the viability of the new program to replace the Federal Family Education Loan Program at a select number of schools. (The creation and operation of the program are discussed in more detail in *Removing College Cost Barriers: What Government Has Done and Why It Hasn't Worked* by Michael Mumper.)

Even before the demonstration project was put into effect, however, newly-elected President Bill Clinton submitted to Congress a new proposal to reform the student loan programs. A central element of the Clinton plan was an expanded version of the Direct Loan program that would lead to its eventual replacement of the FFEL Program at all schools. In 1993, Congress enacted a new compromise program. This time, instead of the demonstration project passed in 1992, or the full-scale implementation advocated by President Clinton, Congress chose to phase-in a large scale Direct Loan program over several years. But it also maintained the existing FFEL Program. Under the compromise, Direct Loans would constitute 5% of new loan volume in 1994-1995; 40% in 1995-96; 50% in 1996-97 and 1997-98; and 60% in 1998-99. Participation by schools in the program is voluntary. However, if many schools volunteered, much more than 50% of total loan volume could be handled through Direct Loans beginning in the third year of the program (Zuckman, 1993). In November 1993, the Department of Education selected 104 institutions to participate in the first year of Direct Lending. The program began in the July 1994. (For a more complete account of the politics of the enactment of direct lending see Steven Waldman's book, *The Bill.*)

Does Direct Lending Save Money?

One of the primary disagreements over the effectiveness of Direct Lending concerns whether or not it will cost the government, and participating institutions, less than the FFEL Program. The policy issues surrounding direct lending are discussed in John F. Jennings book *National Issues in Education: Community Service and Student Loans.* There is persuasive evidence on both sides. A 1992 study by the General Accounting Office (GAO) estimated that a "switch to direct student loans could save the federal government about $4.8 billion—in present value terms—within the first five years of implementation." Indeed, it was the prospect of such savings that finally swayed a reluctant Congress to support the new lending arrangement. (Zuckman, 1993)

Yet the view that Direct Lending would be less costly than the FFEL Program was not universally shared. A 1993 study by the Congressional Research Service (CRS) found that any cost savings anticipated from Direct Lending "probably does not exist" and that "most of the savings attributed to Direct Lending is due to costs currently borne by the private sector that would be transferred to the government but are not being counted in the cost estimates." In a subsequent analysis, the CRS anticipated that the government would then shift these higher costs to the participating institutions. Citing a study by Rudolph Penner, the CRS estimated that Direct Lending would lead

to a shifting of more than $130 million of the costs of lending to the schools.

A large part of the confusion about the overall savings from Direct Loans revolved around a disagreement over the magnitude of the costs that participating institutions would incur in taking over the origination and servicing of student loans. If schools can assume these new responsibilities at a fairly low cost, as the GAO believed, the Direct Loan program should prove to be more efficient and less costly than the FFEL Program. But if institutions are unable to administer the program without developing costly new bureaucracies, as assumed by the CRS, then Direct Loans will produce no net savings. In fact, one February 1993 CRS study concluded that "Direct lending actually could increase budget outlays and reduce national income if it were unable to duplicate administrative cost efficiencies achieved by private lenders."

Even after the first Direct Loans were dispersed in 1994, the issue of institutional costs, or cost savings, remained confused (Zook, 1995). Analysts pre-implementation estimates served to cloud rather than clarify the picture. Campus leaders, who have the responsibility to decide whether or not to participate in the new program, were left to choose based on sharply conflicting cost estimates for the shift.

A Survey of Costs And Savings

Now that Direct Lending is in operation, it is possible to examine the actual experiences of those schools participating in the program. In 1995-1996 I conducted a survey of the directors of the student financial aid offices at all of the 104 institutions that had participated in the Direct Loan program in the 1994-95 academic year. The questionnaire was designed to determine the expenditure changes at each institution which were directly or indirectly associated with the implementation of Direct Loans. In making these determinations, the financial aid administrators were instructed to think of costs and savings broadly. But they were asked only to consider expenditures or savings that actually occurred in the first year of the program and not to forecast or anticipate those that might occur in future years.

In addition to specific questions about the number of staff members in each office, overtime costs, training costs, and new equipment purchased, respondents were asked several open-ended questions to determine if there were less obvious costs or savings resulting from implementation of Direct Lending that would not have occurred under the FFEL. Separate questions were asked about both costs and savings. As such, institutions could experience both increased expenditures and savings simultaneously. Many institutions did. The survey was mailed to participating schools in August 1995. This was at the end of their first year of participation in the program. Follow up surveys were sent in October 1995 and January 1996 to those institutions that had not responded. Eventually, 77 institutions (74%) returned surveys in usable form.

Cautions and Limitations

Isolating the costs associated with the implementation of a particular program, when it is operating in a rapidly changing environment, is a complex matter. This is especially true in the case of Direct Lending, because so many changes were occurring in the federal financial aid programs simultaneously. Between 1993-94 and 1994-95, there was an explosion in the volume of student borrowing across the country. Much of this was related to expansions in the eligibility for student loans made in the Higher Education Amendments of

1992. This increased loan volume put enormous pressure on financial aid offices, many of which were already operating with insufficient staff and equipment. Consequently, institutions of all types and sizes experienced increasing cost pressures in their student aid offices regardless of whether they were implementing Direct Lending. In this context, it was often difficult for financial aid directors to sort out the portion of their increased expenditures that were due to Direct Loans and the portion caused by other factors. While the survey directed respondents to consider only the costs associated with Direct Lending, several found it impossible to trace their spending decisions back to a single cause.

A second limitation of this study is that some of the costs and savings resulting from Direct Lending may appear in places other than the financial aid office. Changes in the speed or predictability of loan disbursement may alter pressures on the bursar's office. Changes in the institution's cash flow resulting from new loan procedures may generate savings that appear on the balance sheet of the business office. Additional computer programming required to implement the new program may appear as a cost to a technical support unit. Some financial aid directors may be familiar with these external costs and savings while others may not. The survey urged respondents to report all the costs and savings resulting from Direct Lending. Still, some respondents may not have been in a position to see or to recognize costs or savings that occurred outside the confines of their own office budget.

Direct Loan Schools Vastly Different From Each Other

The institutions that began using Direct Loans in 1994-95 were vastly different from each other. The 77 schools that responded to the survey included institutions of almost every type and size, from the largest and most comprehensive research universities to the smallest proprietary schools. Their financial aid offices ranged from one full-time staff member to more than 75. The annual loan volume handled by those offices ranged from $122,000 to more than $80 million.

Because of these differences in size, financial aid offices at participating institutions began with vastly different capacities to absorb the demands of implementing a new program. Critics of Direct Lending have warned that some schools, especially those with smaller and less well equipped financial aid offices, may find the transition to the new program especially difficult. It is alleged that such institutions may experience large (relative to their overall budgets) new expenditures for overtime, new equipment, and training. At the same time, they may be less likely to benefit from the savings produced by the economies of scale experienced at larger institutions.

To investigate whether smaller financial aid offices experienced different costs and savings than larger ones, I analyzed the responses of these smaller offices separately. Specifically, I have sorted the data into two categories: those offices with less than $1 million in loan volume and those with more than $1 million. Loan volume thus serves as a surrogate measure of the existing capacities and complexities of the financial aid office. The number of respondents in this category is shown in Table 1.

[There are, of course, a number of ways to measure the capacity of a financial aid office to absorb a new program. The number of staff members, for example, may provide a slightly different view. But because financial aid

TABLE 1
Loan Volume of Survey Respondents

Total Loan Volume	Respondents	Percent of Total
Less than $1 Million	28	36%
More than $1 Million	49	64%
Total Number of Respondents	77	100%

TABLE 2
Increased Expenditures Associated with The Implementation of Direct Lending at Institutions with Loan Volumes of More than $1 Million

(49 Schools Responding)

Expenditure Type	Percent of Institutions Experiencing Increased Expenditures	Mean Increase*	Standard Deviation
New Staff/Overtime	25% (n=12)	$26,700	12,209
Equipment	55% (n=27)	$23,594	9,080
Training	49% (n=24)	$ 4,239	2,447

* Includes only those responses that estimated a dollar amount.

offices employ such large numbers of part-time seasonal and student employees it is difficult to construct a measure of staff size that is comparable among diverse institutions. Moreover, because institutions divide responsibilities differently among the business, bursar, financial aid, and technical support offices, even a reliable measure of staff size might not compare the same responsibilities and functions. Given the limitations of alternative measures, loan volume seemed the most reasonable way to measure the differing capacities of an aid office.]

In the following analysis I first examine the experiences of those financial aid offices with loan volumes of more than $1 million. After that, I examine the experiences of those offices with smaller loan volumes to see if they experienced different patterns of costs and savings.

The Costs of Implementing Direct Lending

A majority of the 49 institutions (about 59%) with loan volumes of more than $1 million experienced increased expenditures in one form or another associated with Direct Lending. As shown in Table 2, these new expenditures were of three types: staff and/or overtime spending, new equipment purchases, and additional training costs. Institutions could report new spending in more than one category and many did.

The most common new expense associated with Direct Lending was new equipment. Purchases of new PCs, printers, and network software were most frequently cited. The mean expenditure increase was $23,594. But there was substantial variation in the level of new spending across institutions. A few large schools experienced dramatic increases in new expenditures for equipment. Rutgers University, for example, reported spending $300,000 on new

equipment to begin the program. However, the respondent noted that "much of this was for networking and hardware purchases which should have been made in the past regardless of Direct Lending." Two other institutions reported spending more than $100,000 on new equipment. These large expenditures skew the mean expenditure upward. Most institutions spent much less than the average. Indeed, 23 of the 27 institutions reporting new expenditures for equipment spent less than $10,000 each.

Several respondents expressed difficulty in estimating whether the new equipment expenditures were the result of Direct Lending, increases in loan volume, or simply part of routine office improvements. As one respondent noted, while significant expenditures for equipment were made for Direct Lending, "the office had to buy new equipment anyway."

The second most common new expense was for training. Nearly half of the institutions with loan volume more than $1 million experienced increased training expenses associated with Direct Lending. These expenditures ranged from $500 to $10,000 with a mean increase of $4,239. The most frequently mentioned training cost was travel to seminars and orientation programs.

Finally, one quarter of these institutions experienced new expenditures on staff and overtime associated with Direct Lending. These increases ranged from $9,500 to $55,000. However, these figures need to be viewed with some caution. A few schools reported hiring a new computer programmer and several more reported working their programmer additional hours. But not all financial aid offices have responsibilities for their own computer programming. In schools where the computer programming for the financial aid office is done by a technical support office, any additional staffing or overtime that may be required to start Direct Lending will not appear in the budget of the financial aid office. This may lead to some under-reporting of new staffing expenditures that was not visible to the respondent.

The Savings from Implementing Direct Lending

Table 3 shows the savings associated with Direct Lending experienced by institutions with loan volumes of more than $1 million. Sixty percent reported no first-year savings. Of the 40% that did report savings, many were unable or unwilling to translate those savings into dollar figures.

One in five of the institutions with loan volumes more than $1 million reported reductions in staffing, and/or overtime expenditures associated with Direct Lending. They ranged from $1,000 to $60,000. These savings were generally derived from improved efficiency in the operation of the office. For example, a University of Florida administrator reported that as a result of Direct Lending, the school was able to "eliminate the need for a cashier in the business office to handle fee payments from FFEL checks." Iowa State University officials estimated that they were able to reduce staff in their loan division by 35%. Similarly, administrators at Hope College in Michigan estimated $15,000 was saved in reductions in the workload of hourly staff. The respondent from Hope also noted that employees were "no longer typing loan applications or handling checks," and that an even greater workload reduction was experienced in the business office "as the loan process virtually disappeared for them."

Other schools noted that while they did not experience savings in staffing costs as a result of using Direct Loans, they were able to manage a larger load

TABLE 3
Cost Savings Associated with The Implementation of Direct Lending at Institutions with Loan Volumes of More than $1 Million

(49 Schools Responding)

Type of Savings	Percent of Total Institutions Experiencing Savings	Mean Savings*	Standard Deviation
Staff/Overtime	20% (n=10)	$17,650	19,860
Other Savings	40% (n=20)	Amount Not Estimated	

* Includes only those responses that estimated a dollar amount.

"Campus leaders may feel as though they are being asked to make a FFEL or Direct Loan program choice based on little more than two massive public relations campaigns."

without the need for staffing increases. For example, the College of Charleston officials reported no savings in staffing expenditures but cautioned that "you must understand that (1) our loan volume increased by 51% over 1993-94 and (2) the staffing levels in the office are already low." Many schools reported savings in areas other than staffing. Twenty institutions, nearly 40% of the responding institutions with a loan volume of more than $1 million, reported savings of some sort. These included savings in postage, phone volume, and/or walk-in student traffic. The University of Florida reported that the need for emergency student loans declined from $300,000 in 1993-94, to $120,000 in 1994-95, and down to $80,000 in 1995-96 as a result of Direct Lending. Such a reduction clearly produces a savings for the institution.

Several respondents were not able to estimate the savings experienced from participating in the program in dollar terms. The respondent from American University cautioned that many of their savings were not "tangible." They were the improved efficiencies resulting from "reduced workloads for an overburdened counseling staff." However, they did not produce "payroll reductions." Even at Rutgers University, which reported substantial new spending on staff and equipment, the respondent still judged that the savings outweighed the costs. "Although start-up costs for equipment were high, we feel that in the short run the money saved by the bursar's office combined with improved student services more than off-set any initial outlays."

Complicating matters further, several institutions used the switch to Direct Lending as what one respondent called a "window of opportunity" to reorganize their offices and operations. As such, any savings that might have occurred as a result of Direct Lending were redirected to improved student services. This made straightforward pre- and post-implementation comparisons impossible. For example, one respondent noted that, "Direct Lending has allowed us to spend less time dealing with lenders/guarantors and more time working with students." The University of Minnesota-Duluth reported that they now "assign only three full-time employees to see students 100% of the time because we have fewer problems/stress to deal with. The remainder of the office can now focus on managing the Title IV and state aid programs." The University of Washington reported "savings in phone costs looking for loan checks, reductions in office traffic due to less confusion, and better cash flow at the University."

Costs and Savings At Small Volume Institutions

Like institutions of all sizes, those with small loan volumes experienced a significant increase in loans between 1993-94 and 1994-95. Many of these institutions experienced a 50% increase in both the dollar volume and their total number of student loans in one year. Such rapid growth posed special problems for these smaller, often proprietary schools, which must absorb these increases with a very small staff. Of the 77 institutions responding to the survey, 28 reported loan volume for 1994-95 of less that $1 million. The financial aid office at these small volume institutions employed an average of 3.1 staff members. None had more than six staff members and several employed only one.

As shown in Table 4, more than three in four of these small loan volume schools reported additional expenditures of one type or another in the year after they shifted to Direct Lending. This is higher than the 55% of larger volume schools. The most common new expenditures were for computers and computer equipment. The average expenditure reported was about $3,000. New personal computers and software were the most common type of spending. A few of the smallest volume schools reported purchasing a PC of their own for the first time.

Fifty-four percent of the small volume schools increased their expenditures on personnel. Of the 28 small volume institutions, six (22%) hired a new staff member in 1994-95. Another nine (32%) experienced increased expenditures for overtime. The precise cost of the increased overtime is difficult to calculate since a portion of it was not paid to hourly employees but to salaried employees who receive compensatory time for their additional work. However, these small volume schools estimated a mean expenditure on additional staff and/or overtime of $6,800 for the year. These increased costs ranged from $1,000 to $20,000.

More than 60% of small volume schools experienced increases in spending for staff training. These ranged from $200 to $3,000. One respondent, who was unwilling to estimate a precise dollar cost, noted their "greatest cost was time spent 'managing' the computer software which required too much involvement and work."

As shown in Table 5, fewer small volume schools reported savings associated with the shift to Direct Lending than larger volume institutions. Only four (14%) of the twenty-eight small volume schools reported any savings associated with the first year of Direct Lending. Two schools (7%) experienced reduced staffing costs. One of these schools reported being able to reduce the size of the office from three to two. Two other small volume schools reported other types of savings, but were unable to estimate the amounts saved. The remaining 86% of the small volume schools experienced either the same or higher expenditures as a result of Direct Lending.

A few small volume schools reported that they made significant changes in the operations of their financial aid offices while they were shifting to Direct Lending. While these changes did not always result in reduced expenditures, they did imply an expansion in the capacity of the financial aid office that could produce savings in the future. Vicki Beauty Schools of Milwaukee reported that "The office changed its approach to financial aid awarding ending its service with a third party and moving all facets of financial aid to being done in-house. The outcome was the hiring of an experienced financial aid admin-

istrator to establish the in-house operation." Cloud County Community College in Kansas used the switch to Direct Lending as an opportunity to reassign staff responsibilities. They reported that "a 1/2 time person was assigned to work with Direct Lending and all associated PC and management tasks. This freed the director for packaging, counseling, and other student services."

In sum, it appears as though the costs and savings experiences of small volume schools were slightly different from their larger volume counterparts. The small volume schools were more likely to have additional costs, especially for staffing and overtime. They were also less likely to experience first-year savings than larger volume schools.

Net Costs or Net Savings?

Given the wide variety of schools implementing the program, the different types of costs and savings experienced, and the complexity of the lending environment, it is difficult to make a comprehensive assessment of the costs and savings associated with the implementation of Direct Lending. The limits of the data gathered here make a straightforward assessment of aggregate net costs impossible. Unfortunately, it is precisely this question of net cost that college presidents and campus leaders want answered as they make decisions about participation in the program.

TABLE 4
Increased Expenditures Associated With the Implementation of Direct Lending at Institutions with Loan Volumes of Less than $1 Million

(28 Schools Responding)

Expenditure Type	Percent of Institutions Experiencing Increased Expenditures	Mean Increase*	Standard Deviation
New Staff/Overtime	54% (n=15)	$6,800	4,879
Equipment	78% (n=22)	$3,050	2,698
Training	61% (n=17)	$1,530	842

* Includes only those responses which estimated a dollar amount.

TABLE 5
Cost Savings Associated with The Implementation of Direct Lending at Institutions with Loan Volumes of Less than $1 Million

(28 Schools Responding)

Type of Savings	Percent of Total Institutions Experiencing Savings	Mean Savings*	Standard Deviation
Staff/Overtime	7% (n=2)	$10,000	5,000
Other Savings	7% (n=2)	Amount Not Estimated	

* Includes only those responses that estimated a dollar amount.

Accordingly, I have tried to construct a measure which sheds some light on the net costs or savings experienced by institutions in the first year of Direct Lending. Based on their self-reports, I have calculated the net cost or savings associated with Direct Lending for each institution. In doing so, I took the difference between the sum of all their reported costs and all their reported savings. In cases where the respondent noted a cost or saving, but was not willing or able to estimate a dollar amount, the item was not included in the calculation. Those schools that reported new spending that was greater than savings were considered to have net costs. Those schools which reported savings that were greater than new spending were considered to have net savings.

Table 6 shows many more institutions experienced net costs than experienced net savings in the first year of Direct Lending. Among larger volume schools, About 60% reported net costs associated with the first year of the program. One in four experienced net savings. Smaller loan volume schools fared worse on both counts. Among schools with loan volumes of less that $1 million, more than 80% experienced net costs, while only 7% experienced net savings.

Predictability and Surprises

When deciding whether to participate in a new program, it is not just new expenditures that worry the potential participant. Unforeseen or unanticipated expenses are also a concern. If new expenditures are planned and budgeted in advance, they may be absorbed into the annual budget as normal operating expenses. In order to determine the predictability of the new expenditures resulting from Direct Lending, each respondent was asked to report any unanticipated expenditures that they experienced as a result of Direct Lending.

As shown in Table 7, 10 of the 77 schools (14%) responding to the survey experienced unanticipated expenses. These included one school that experienced "larger than expected increases in telephone transmission costs" and "memory upgrades for PCs." Another institution reported the unexpected need for "technical upgrades to allow for installation of computer networks, i.e., wiring, data lines, and other network devices."

Table 8 shows that 13 of the 77 respondents (17%) experienced unanticipated savings from their participation in the program. Only three of those were

TABLE 6
Net Costs and Net Savings Associated with the Implementation of Direct Lending

Institutions with Loan Volume of:	More than $1 Million (n=49)	Less than $1 Million (n=28)
Institutions Experiencing Net Costs	59% (n=29)	82% (n=23)
Institutions Experiencing Net Savings	25% (n=12)	7% (n=2)
Institutions Experiencing No Net Change	14% (n=7)	11% (n=3)

TABLE 7
Institutions Experiencing Unanticipated Expenditures Associated with the Implementation of Direct Lending

Total Loan Volume	Percent Experiencing Unanticipated Expenses
Less than $1 Million (n=28)	11% (n=3)
More than $1 Million (n=49)	14% (n=7)
All Institutions (n=77)	13% (n=10)

TABLE 8
Institutions Experiencing Unanticipated Savings Associated with the Implementation of Direct Lending

Total Loan Volume	Percent Experiencing Unanticipated Expenses
Less than $1 Million (n=28)	11% (n=3)
More than $1 Million (n=49)	21% (n=10)
All Institutions (n=77)	17% (n=13)

institutions with small loan volumes. These savings included one school that reported larger than expected reductions in mail and phone costs and another that saved money by reducing student traffic. Another respondent reported that the office spent less time "tracking down loan checks from lenders" and "returning loan checks when students were no longer making satisfactory progress or did not reenroll."

Overall, it appears as though participating institutions did a good job of anticipating and budgeting for the transition to the new program. The vast majority of schools that experienced higher costs and those that experienced savings observed that the financial outcome of the program was just about what they had expected.

Conclusions and Implications

The preceding analysis of the costs and savings experiences of the institutions that participated in Direct Lending for the first time in 1994-95 reveal several patterns. The most obvious is that, at least in the first year of operation, many more schools experienced new expenditures than experienced savings. Yet, there was tremendous variation in the type and magnitude of both the costs and the savings across participating institutions. A few schools spent more than $250,000 on new equipment and staff. Many others had no new expenditures. Some schools reported savings of more than $100,000 in the first year. Many other schools saved no money. Overall, however, most schools appeared to experience modest spending increases and smaller, or no savings.

It also appeared as though the loan volume of the institution was related to the cost and savings experienced. Schools with loan volumes of less than

$1 million were more likely to incur new costs. They were also less likely to save money. As a consequence, more than 80% of these small volume schools experienced higher net costs during their first year of Direct Lending.

It is also clear that those institutions participating in the program were not surprised by the costs and savings they experienced. The vast majority of both small and larger volume schools reported no unanticipated cost or savings as a result of the program. Institutions appear to have experienced expenditures that were just about what they had been expecting.

The fact that Direct Lending produced net costs for participating institutions during the first year of operation must not be taken as a sign that the program is not working well. The purpose of the Direct Loan program was not to save campuses money in the operation of their financial aid offices. Its advocates claim it will improve student services, reduce government spending, and simplify the lending/borrowing process. This study has not examined any of these claims. In fact, it is possible that if Direct Lending produces these benefits, it may still be a bargain even if it results in higher net costs for institutions. Moreover, this study only looked at the changes that occurred in the first year of the program. In the implementation of any new programs, expenditures are more likely to be necessary in the first year, while savings from efficiencies more likely to appear in subsequent years. As such, spending for new equipment and staff in the first year may turn out to be an investment that pays dividends in later years.

No campus should base their decision to participate in Direct Lending solely on the first year costs of participation in the program. Campus leaders must weigh a wider range of costs and benefits. However, an accurate estimate of the start-up costs of the program is one component that must be included in a complete calculation of costs and benefits. By studying the experiences of those institutions that have begun the program in previous years, campus leaders contemplating Direct Loan program participation can gain insights into the types and levels of new spending and savings they might expect. And those who are already planning to enter the program can more effectively budget for their start-up costs.

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